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CORPORATION FILE

HOWARD Johnson's Motor Lodge
PARK
HOWARD JOHNSON'S MOTOR LODGE
HOWARD JOHNSON'S RESTAURANT

HOWARD JOHNSON COMPANY

ANNUAL REPORT 1962

Fried Clams
Chocolate Syrup
Newburg Sauce
Clam Chowder
Baked Beans
Potted Beef & Vegetables with Gravy
SYRUP
Howard Johnson's Indian Pudding
Howard Johnson's Crispettes 10¢
Peanut
Fudge
Marshmallow Fudge
Cocoanut
Butterscotch Sauce
Fudge Sauce
Orange Marmalade
Howard Johnson's Lollipops 25¢ 6 delicious flavors
Howard Johnsons Strawberry Ice Cream
Ice Cream Howard Johnson's
Welsh Rarebit
Howard Johnson's Fudge Cake
Howard Johnson's Bluebe Toppin
Howard Johnson's Fruit Sticks
Howard Johnson's Brownie
Howard Johnson's Fiesta Assortment
Howard Johnson's
Howard Johnson's Chocolates Twenty-eight Flavors
Howard Johnson's Chocolate Thin Mints
49¢

financial highlights

	1962	1961
Total Income	$113,476,492	$102,381,619
Income Before Federal Income Taxes	9,033,658	8,213,015
Federal Income Taxes	4,430,000	4,120,000
Net Income	4,603,658	4,093,015
Net Income Per Share (computed on the basis of 2,200,697 shares outstanding in 1962 and 2,200,000 shares in 1961)	$2.09	$1.86
Depreciation Charges	3,069,472	2,825,973
Additions to Fixed Assets	6,657,331	4,520,511
Working Capital at December 31	10,447,889	9,589,694
Ratio of Current Assets to Current Liabilities at December 31	2.1	2.1

FRONT COVER: *First multi-story motor lodge opened by a licensee in New York City in 1962.*

When Howard Johnson Company was listed on the New York Stock Exchange in August, Howard B. Johnson, President (left) cut a giant cake at ceremonies on the floor of the Exchange. Edward C. Grey, Exchange Executive Vice-President (center) and Michael M. Rosenberg of Auerbach, Pollak & Richardson, specialists in the stock also participated.

TO OUR STOCKHOLDERS:

We wish to extend a cordial welcome to the many new stockholders who expressed confidence in Howard Johnson's by joining our family of shareholders during 1962, as well as to extend our thanks to those stockholders who have continued to support the Company since it first became publicly owned in 1961.

Despite the adverse effect of an unseasonably cool summer on our northern area operations, our total and net income achieved new highs. Total income rose from $102,381,619 in 1961, to $113,476,492 in 1962. Net income increased from $4,093,015 to $4,603,658, representing an improvement in net income per share of 23 cents over 1961.

In our first full year as a publicly-owned corporation, we have continued our program of expansion and modernization in order to solidify our market position for future growth. In 1962 over $6,600,000 was devoted to additions to fixed assets, an amount substantially higher than during the previous year. Our capital investment program included the equipping of new Company-leased restaurants, the acquisition of existing licensee operations, the renovation and modernization of Company-operated restaurants, the acquiring of real estate for future development and the enlargement and renovation of commissaries and distribution centers. During 1963, and probably for several years ahead, our programs of new construction, expansion and modernization will continue with the result that additions to fixed assets are expected to continue at a level at least as high as that prevailing during 1962.

During the past year, 35 new Howard Johnson's Restaurants were opened for a total of 638 on December 31, 1962, representing a net gain of 22 for the year, compared with a net gain of 11 in 1961. The Company also negotiated for, and purchased, 5 licensee restaurants, so that of the total of 638 on December 31, 1962, 300 were Company-operated and 338 were operated by licensees. Our people were busy, not only with the planning and supervision of new facilities, but also with the modernization and redecoration of 78 existing restaurants, and the construction of dining-room wing additions to 35 restaurants providing approximately 50 additional seats each. As of January 1, 1963, 21 more restaurants were under construction, 15 of which will be Company-operated.

Satisfactory growth of our chain of licensed Howard Johnson's Motor Lodges was evidenced by the opening of 28 new lodges by licensees in 1962, bringing the total to 139 in operation at the end of the year, with 19 more under construction.

Our Retail Frozen Foods and Ice Cream Divisions showed a healthy increase in 1962, in what promises to be an expanding market for our fine products. Cakes and pastries were added to our frozen food line with good initial success.

As we look forward to 1963, many developments of 1962 will move us into exciting business areas. The successful 300-room, multi-story licensed motor lodge in New York City is the forerunner of two more such units, one of which was opened early this year in Washington, D. C., and the other in Cleveland, Ohio, is expected to open soon. Licensees are ready to start construction on two more similar installations in Pittsburgh, Pennsylvania, and Wheaton, Maryland. Three experimental restaurant building designs, geared to meet new trends in merchandising, were developed and placed in operation in Atlanta, Georgia; Washington Township, Ohio, and in New York City. These test operations will be carefully studied and evaluated for their potential future use at other locations.

The Red Coach Grill Division opened its newest 300-seat unit at Westbury, Long Island, New York, in September, 1962, and its tremendous acceptance has encouraged the Company to select three more sites, two of which—in Darien, Connecticut, and in New York City—are now under construction. In 1963, a substantial new advertising campaign is planned to further enhance the public image of this growing subsidiary of our Company.

An event of particular interest to our stockholders was the acceptance of our common stock for listing on the New York Stock Exchange and the commencement of trading on the exchange on August 27, 1962.

The record showing for 1962 is due, to a large degree, to the untiring efforts of the Board of Directors, our aggressive management team, our motor lodge and restaurant licensees and our more than 12,000 fine employees. In spite of rising costs and keener competition, the Company faces the year ahead with confidence. We believe that the policy of strict adherence to high standards of quality, which has brought Howard Johnson's to its present position of leadership in the hospitality industry, will enable Howard Johnson Company to continue its healthy growth.

Sincerely yours,

Howard B. Johnson
President

HOWARD
JOHNSON'S
ICE CREAM
28 FLAVORS

REVIEW OF OPERATIONS

The year 1962 was one of noteworthy expansion for the hospitality industry — particularly for those operations that cater to the rapidly-growing number of Americans who use the nation's highways.

Hand in hand with this growing market, however, has been an increase in the number of businesses competing to serve travelers in America. In the battle for the public hospitality dollar, success depends upon good long-range planning, operating efficiency, sound financing, and continuing public acceptance.

Although keen competition and increased operating costs will continue to be felt, this Annual Report will acquaint our stockholders with the manner in which Howard Johnson's is meeting the challenge. We will continue to devote maximum effort to our expansion program and to improving efficiency in all of the Company's activities and services.

Guests relax around the pool of one of the Howard Johnson's Motor Lodges.

Restaurant Expansion

In 1962, Howard Johnson Company further consolidated and expanded its services along the eastern seaboard and in the midwest. Thirty-five new restaurants were opened for business during the year making a total of 638 units in operation on December 31, 1962. Compared to a year earlier, the result was a net gain of twenty-two restaurants as against a net gain of eleven operations during 1961.

Two significant trends evolved during the year. First, the Company's program to eliminate old, outworn marginal-profit operations resulted in the closing of fourteen such restaurants. In some instances new and up-to-date restaurants were opened in their vicinity on more desirable locations. Second, more Company-operated restaurants than licensee-operated units were placed in operation, twenty-two being opened by the Company and thirteen by licensees. In addition, the Company purchased five existing restaurants from licensees. Management anticipates the acquisition of more licensee restaurants in the future. Of the 638 restaurants in operation at the end of the year, 300 were operated by the Company and 338 by licensees. On December 31, 1961, a total of thirteen Company restaurants and eight licensee restaurants were under construction and subsequently opened in 1962. At the end of 1962, fifteen Company restaurants and six licensee restaurants were being built and will be opened to the public in 1963.

In keeping with the Company's policy of continued sound expansion into new markets, 1963 should see a trend toward the aggressive development of midwestern installations. The Real Estate Department is constantly investigating plans and the development of business in growth areas not yet tapped for future business potential for Howard Johnson's.

Intensive Modernization Program

During the year under review, Howard Johnson Company and its licensees made a considerable investment in a program to keep facilities modern and attractive in keeping with the Company's established national image as "Host of the Highways". In all, 138 existing Company or licensee restaurants were improved, enlarged, modernized or redecorated.

The more important improvements included the addition of 35 new dining-room wings with an average of fifty seats in order to serve patrons more comfortably during peak business periods. An additional 78 restaurants were either redecorated or completely remodeled and fifteen received other minor additions.

In anticipation of the coming New York World's Fair, all approaches to this highly-promoted enterprise are being carefully studied for possible new sites which will have continued business potential. Existing Howard Johnson's Restaurants serving the approaches are being surveyed and will be modernized and expanded as necessary.

Trends in New Restaurant Design

The Company is experimenting with a number of new developments in services and building design. A pilot installation known as a "compact" building was opened in Washington Township, Ohio, incorporating new techniques to render rapid, self-service to the guest with lower operating costs and will be care-

Typical new Howard Johnson's Restaurant dining room design.

CASHIER
COCKTAIL LOUNGE

fully studied and evaluated for its potential future use.

Construction was started in Atlanta, Georgia during 1962 on a new, ultra-modern restaurant which was designed to accompany Howard Johnson's Motor Lodges, and may be incorporated in future motor lodge-restaurant installations. The restaurant was completed early in 1963.

New York City was a natural testing ground for a new "walk-up" unit offering a limited menu and specifically designed for highly-populated metropolitan areas on sites which enjoy a constant flow of pedestrian traffic and where real estate locations are unavailable for the larger roadside-type buildings.

Studies are continuing on these three new experimental facilities for guest reaction and profit return. When sufficient evidence has been gathered from actual operating experience, an appraisal will be made as to their possible contribution to the Company's future expansion plans.

The Company's Architectural Department continues to test and evaluate new fabrics, new building materials, new furniture designs, and new service appliances in its never-ending effort to reduce maintenance costs and improve efficiency and service in Howard Johnson's Restaurants and Motor Lodges.

Motor Lodge Expansion

The rapid growth of the chain of licensed Howard Johnson's Motor Lodges has been one of the most noteworthy developments in the hospitality industry. In the past five years, the number of such Howard Johnson's Motor Lodges has increased six-fold from twenty-three at the beginning of 1958 to one hundred and thirty-nine at the end of 1962.

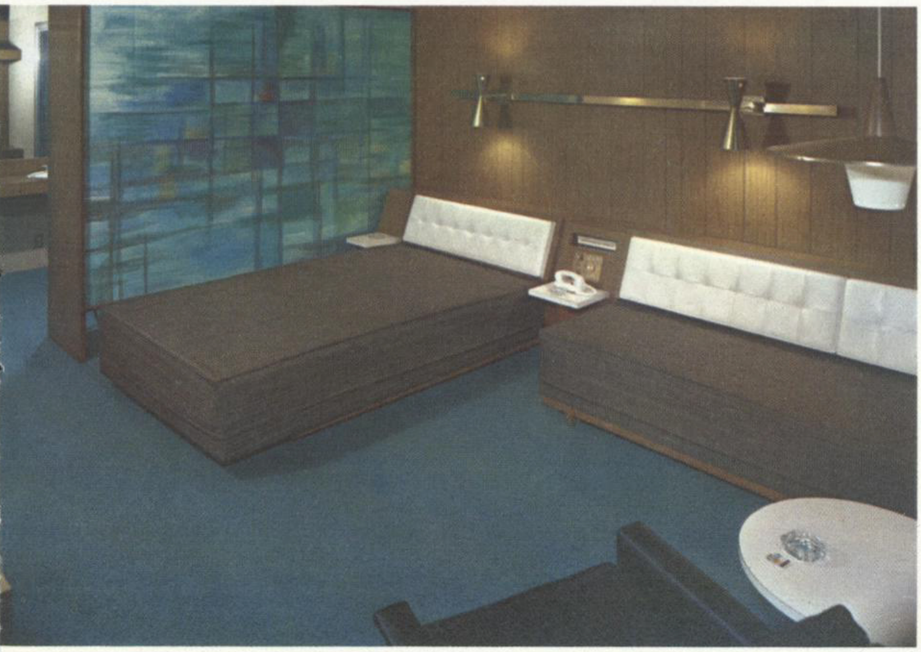
These licensed Howard Johnson's Motor Lodges located in twenty-five states in the eastern half of the United States and Nassau, B.W.I., now offer more than 9,800 rooms to serve travelers. The lodges generally offer 48 to 75 room accommodations.

In 1962 alone, 28 new Howard Johnson's Motor Lodges were opened in fifteen states under license from the Company. In addition, nineteen Howard Johnson's Motor Lodges were under construction by licensees at the end of the year.

Even more important than numbers from the Company's point of view, however, has been the quality of the locations selected, including units which are adjacent to turnpike access roads, interstate cloverleafs, and growth-potential sites along major highways and arteries.

Perhaps the most important factor contributing to the popularity of Howard Johnson's Motor Lodges is public appreciation of the policy of offering spacious, conveniently-located rooms geared to the comfort and needs of the entire family. The availability of a Howard Johnson's Restaurant at each motor lodge and the recognized high standard of quality for which all Howard Johnson's products and services are noted also played major roles in attracting the many guests who stayed at Howard Johnson's Motor Lodges last year.

The Company continued its research into new and more efficient ways to serve the traveling public. In addition to the luxurious "Room of the Future" unveiled in 1962, a number of new room designs, currently under study by the Company's Interior Design and Decorating Department, are scheduled for release in 1963, and Howard Johnson's planners are continuing long-range study and research programs for the future.



Unveiled as the "Room of the Future" at Howard Johnson's Sixth Annual Motor Lodge Conference in New York in the Spring of 1962, the newest motor lodge room design is gaining wide acceptance as the "Room of Today" at Howard Johnson's Motor Lodges.

First Multi-Story Lodge Opens

In June, 1962, the first multi-story metropolitan Howard Johnson's Motor Lodge was opened by a licensee in midtown Manhattan near the heart of New York's theatre district. This eleven-story, 300-room lodge received wide publicity throughout the nation and set occupancy records during a period in which most New York hotels were experiencing a decline in business. The overwhelming success of this "hi-rise" motor lodge is indicative of the need and demand for this type of installation in major cities.

The Company views multi-story motor lodges as an important extension of the hospitality industry. Through them the convenience, economy and efficiency of the highway motor lodge is being made available to the growing number of travelers visiting the nation's large cities and key economic centers.

Another ten-story, 200-room lodge located in downtown Washington, D. C. was opened by a licensee early this year. A third, in Cleveland, Ohio is nearing completion.

Two similar lodges are planned in Maryland and Pennsylvania during 1963. All Howard Johnson's Motor Lodges, including these multi-story lodges, are operated by licensees and all feature Howard Johnson's Restaurants.

Red Coach Grills

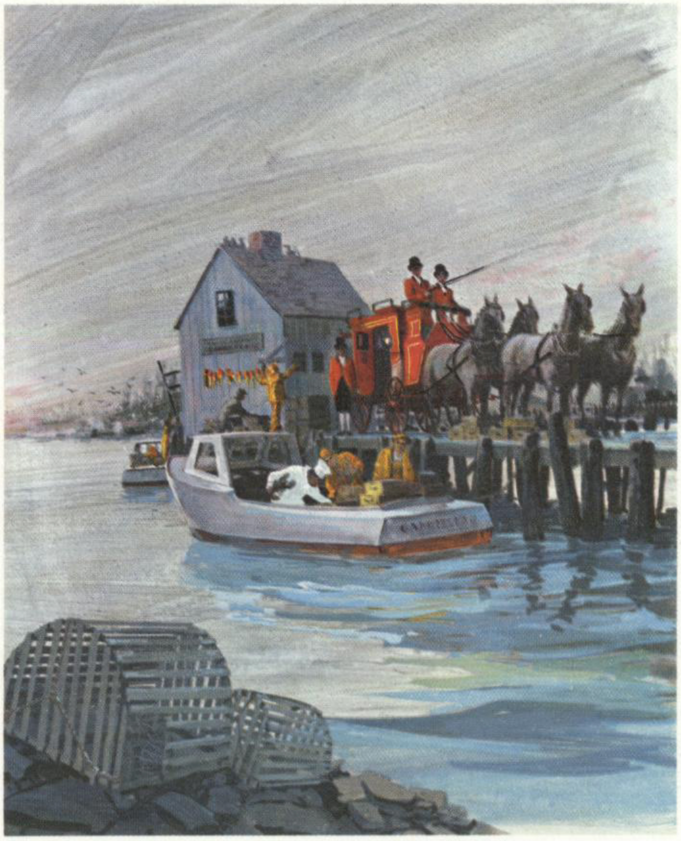
Red Coach Grills, the group of luxury-type restaurants operated by the Company's Red Coach Grill Division, opened their twelfth restaurant in Westbury, Long Island, New York, in September, 1962.

These restaurants are located in Massachusetts, Connecticut, New York and Florida and cater to tastes of discriminating diners featuring selected cuts of meat, lobster, seafoods, and other choice entrees together with a selection of fine wines and bonded liquors.

The unique image which distinguishes Red Coach Grills from its competition is the personality expressed through a warm, friendly and nostalgic atmosphere, reminiscent of the early American stage coach inn. A distinctive characteristic of each Red Coach Grill is the rustic, red-roofed building designed with fieldstone and California redwood. The red coach in front is a welcoming prelude to the delightful atmosphere and high-quality food which is offered to our guests.

An expanded and aggressive advertising program in support of the entire Red Coach Grill system was prepared in 1962 for implementation in 1963. The increasing amount of high-speed air travel warranted the inclusion of national advertising to attract visitors from all parts of the country.

Three new Red Coach Grills which are planned for 1963 are located in high-income markets which have already attracted other growing industries. Under construction in Darien, Connecticut is a Red Coach Grill with seating capacity for 320 guests. It is located directly off the Connecticut Turnpike (Interstate 95) a major artery between New York City and New England. Another is under construction in New York City at 7th Avenue and 51st Street. It is planned to seat 225 patrons and is located in the heart of Manhattan's world-famed theater and entertainment section. A site has also been acquired in Braintree, Massachusetts, adjacent to Route 128, a popular limited-access highway, and near a fast-growing shopping plaza. These areas provide the proper customer potential to support a luxury restaurant.



A new advertising program was planned in 1962 in support of the Red Coach Grills and will appear in national publications in 1963.

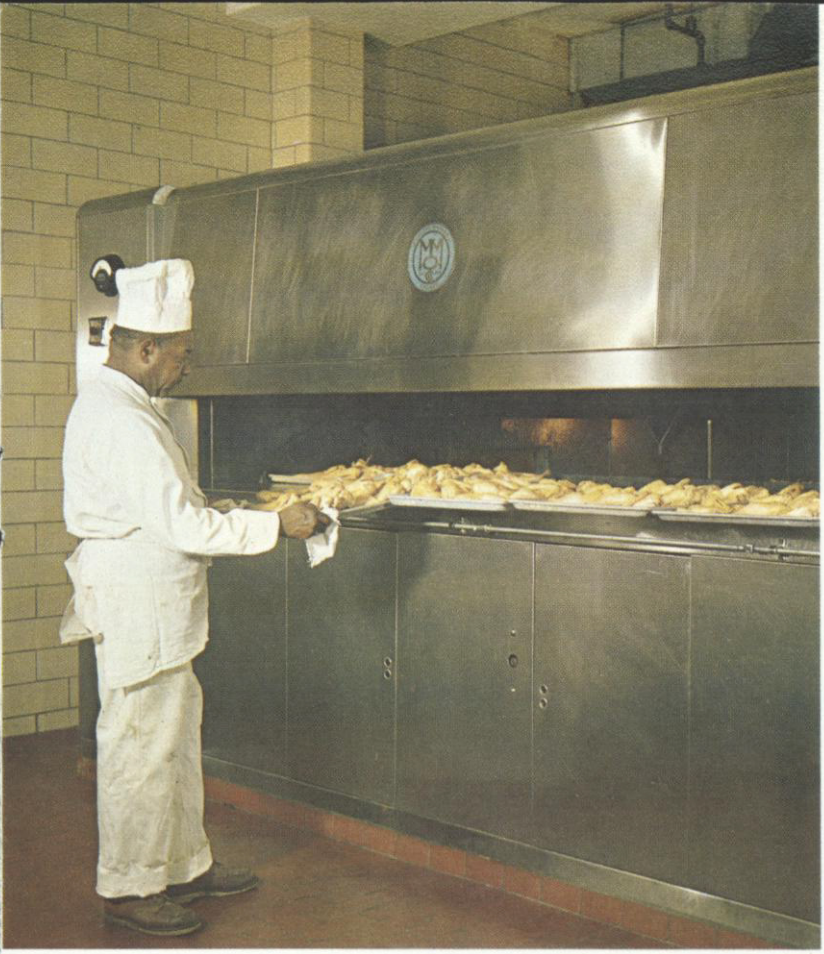
Commissaries

No single feature of the Company's operations is more important than our system of commissaries. Through them the more than 700 different quality products for which Howard Johnson's is famous are manufactured or processed under rigid standards of quality control and then distributed to Howard Johnson's Restaurants.

Our seventeen strategically-located plants and distribution centers are responsible for uniform high-quality food products for service in all Howard Johnson's Restaurants.

The growth of Howard Johnson's in recent years has made necessary continuing enlargement of the Company's commissary system.

In 1962 the Brockton, Massachusetts commissary completed an addition at a cost of over $300,000 to house a modern and efficient bakery department. The remainder of the plant was redesigned and refurbished not only to make possible increased produc-



A wide variety of products are manufactured or processed for distribution in Howard Johnson's commissaries.

Construction of new restaurants brings Howard Johnson's fine foods to more new customers each year.

tion but also to provide the finest of working conditions for our employees. Two new, large-capacity rotary ovens now provide more production than that formerly handled by five smaller models. Expanded freezer space provides for greater storage permitting more efficient production scheduling.

Major construction and new equipment costing in excess of $400,000 was added during 1962 at the production plant at Queens Village, New York, and is expected to result in reduced operating costs and increased manufacturing yield. The new bakery department addition furnished the plant with needed space to meet increased production demands and also provided necessary expansion area for the frozen and canned food departments, and the installation of a frankfurt manufacturing facility.

A new distribution depot is scheduled to open early in 1963 in Syracuse, New York. This location will serve as a point of administrative control and a source of supply for efficient servicing of the expanding upper New York State market.

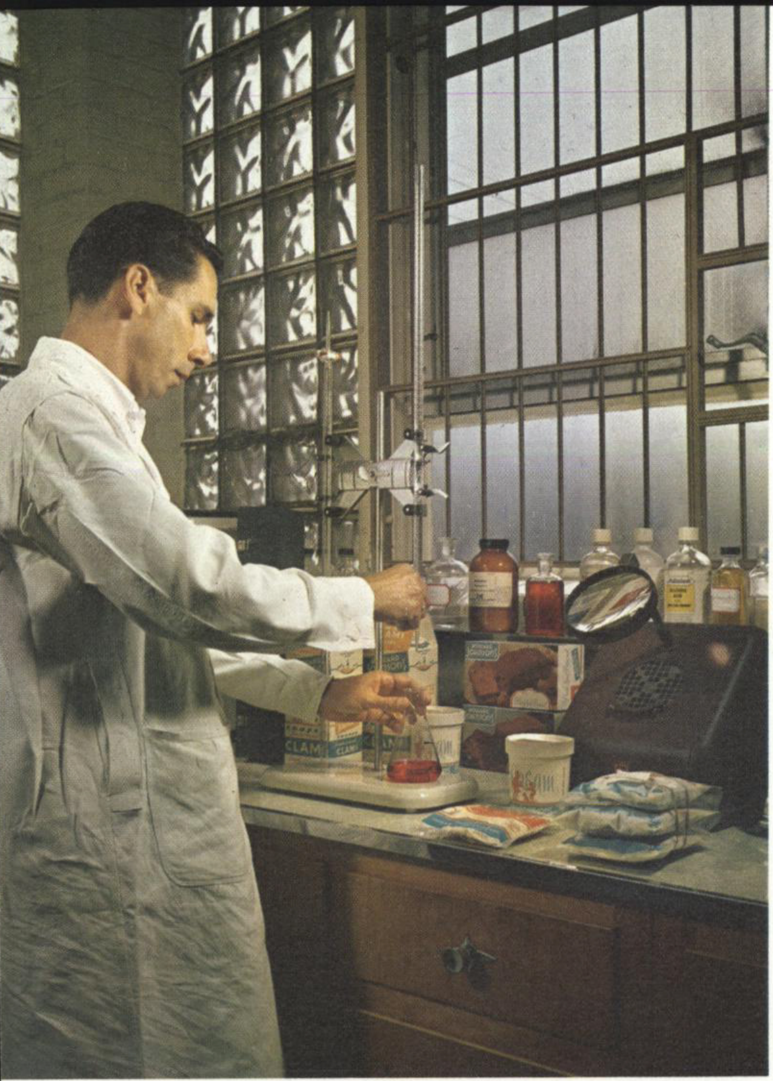
More Americans "Take Home" Howard Johnson's Foods

Howard Johnson's packages a variety of specialty items for retail distribution through Howard Johnson's Restaurants and in quality supermarkets and grocery stores in major metropolitan centers. In the line are ice creams and sherbets, candies, assorted frozen bakery products, frozen vegetables, frozen entrees, a variety of canned toppings, gravies, sauces, soups and soup concentrates, dry mixes and such items as Baked Beans, Brown Bread, Indian Pudding, and Marmalade.

Early in 1962, the Manufacturing Division introduced frozen Coconut Cake, Fudge Cake, Date-Nut Bread and Banana Bread into the retail line. These products are packaged in boxes featuring attractive, full-color reproductions of the products. Since their introduction, Howard Johnson's sales in this highly competitive field have been most gratifying. Throughout the past year the Company has been actively engaged in redesigning all of its retail food packages with full-color pictures of the products.

Also, last year the New England area was used as a pilot market for the preliminary testing of a new Howard Johnson's pre-packed quart of ice cream. The selection of this size was based upon frequent requests for a pre-packed quart container which provides adequate portions of quality ice cream for the average family. Prior to the introduction of the pre-packed quart, Howard Johnson's pre-packed ice cream was limited to pints and half gallon units.

The Company has also undertaken surveys which are expected to result in the introduction of Howard Johnson's "take-home" foods into other important



A permanent staff of food technologists is continually at work maintaining the quality of Howard Johnson's products and helping to expand the company's line of fine foods.

New merchandising freezers were designed and installed in many Howard Johnson's Restaurants in 1962 to attract new customers to the ever-growing number of patrons who purchase Howard Johnson's "take-home" foods.

markets. This will add to the current distribution in New England, New York, Florida, Ohio, Michigan, Tennessee, North Carolina, South Carolina, Virginia and Washington, D. C. Particular emphasis is being placed on westward expansion.

Annual sales of Howard Johnson's retail foods presently represent a small proportion of the Company's total volume. However, the demand for these foods has been steadily increasing over the past five years and public acceptance in new markets has been such that the Company looks to its retail line as an expanding and potentially important area of growth.

To stimulate increased distribution of our retail products, Howard Johnson's participated in several trade shows including exhibits in Boston, New York, New Jersey and the National Frozen Food Merchandising Exposition in Chicago.

New merchandising freezers, display racks, and point-of-sale advertising materials have been designed to achieve the maximum exposure for Howard Johnson's retail foods in Company and licensee restaurants.

Personnel

Twelve thousand "People Serving People" with the warm friendly attitude typified by the famous "Johnson Girl" are responsible to a great extent for the company's earnings.

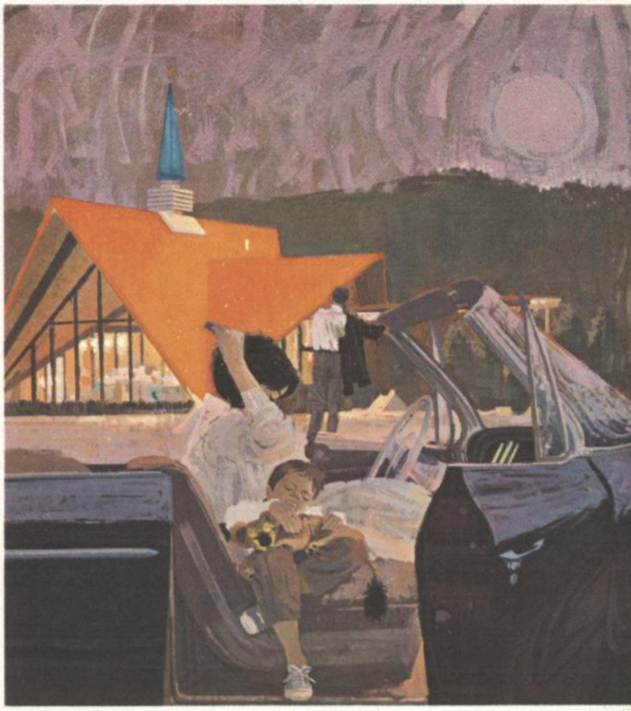
These include both the service and the non-service personnel employed in our roadside installations, commissaries and offices.

Our restaurant personnel are supervised by expertly-trained specialists who concentrate continually on service to the guest. Top management is in constant touch with the supervisory staff throughout the country to insure that company policies and procedures are uniformly employed throughout the chain. Standardization of quality services is an important factor in maintaining and increasing the public acceptance enjoyed by Howard Johnson's.

Growth and expansion requires experienced management. In 1962 many positive steps were taken to insure that executive development would continue to advance. In cooperation with college officials, Howard Johnson's participated in a program of scholarships with colleges offering courses in restaurant management. A concentrated effort was also made in the recruitment of personnel at all levels to insure the continuing addition of the finest talent to train under the guidance of our supervisory staff.

Forty junior executives are selected to meet annually for a three-day workshop in a progressive Management Development Program. The group met with specialists in industry and company executives in Boston during the past year to learn business administration procedures and effective methods for training and developing subordinates. Formal sessions were supplemented by field trips to Howard Johnson's four New England plants, and to the Accounting, Architectural, Advertising, and Executive Offices where department heads explained the functions of their respective departments.

In 1962 leading colleges such as Cornell University, Michigan State University and the Universities of



New ads carried Howard Johnson's to millions of customers through popular magazines in 1962. This program will be expanded to strengthen the image of Howard Johnson's as "Host of the Highways."

Massachusetts and Connecticut, which offer special courses in Restaurant and Hotel Management, cooperated with Howard Johnson's in arranging regional seminars for manager and assistant-manager personnel.

Executive Management Committee

Howard B. Johnson, President, announced the appointment in 1962 of Fredrich H. Thomforde and Pierre Franey, Vice Presidents, to the Executive Management Committee raising the committee membership to nine representatives from top management.

Restaurant and Motor Lodge Conference

In May of 1963 the first combined Howard Johnson's National Restaurant and Motor Lodge Conference will be held in New York. Previously a number of motor lodge and restaurant conferences have been held independently at various locations.

The objective of the meeting will be to discuss business potentials and impress upon the licensee-operators the importance of uniformity in Howard Johnson's operations. Specialists from industry and government have been invited to address the group on the travel and public hospitality business.

The Company will conduct workshops of interest to the participants and will sponsor merchandising exhibits in many operational aspects of the business.

Advertising and Promotion

In 1962 the Company intensified its activities in all phases of marketing and advertising to keep the name and services of Howard Johnson's before the public.

New and dramatic full-page, four-color advertisements sold Howard Johnson's food and services in nationally-circulated magazines. By combining the familiar symbols of Howard Johnson's with warm, human-interest illustrations—appearing in both family-type magazines and business periodicals—a large number of potential "on-the-road" guests were reached. National advertising is local advertising in the sense that it adds prestige to each individual operation as a part of a respected organization.

Radio and Television

Howard Johnson's commercials appeared on television screens in such major cities as New York, Boston, and Miami where the heavy concentration of Howard Johnson's facilities indicated the use of this medium. Our familiar radio jingles were used together with selling messages to promote restaurants within a listening area.

The majority of commercial time purchased on radio and television was to support Howard Johnson's Restaurants. However, in those cities where Howard Johnson's retail products are carried in supermarkets and grocery stores, availability of our frozen foods, canned goods, and ice creams was made known to millions of radio listeners and television viewers.

Howard Johnson's Motor Lodges received limited radio and television support since the greatest share of this division's advertising budget was devoted to space in national publications.

More than two million Howard Johnson's Road Maps and Howard Johnson's Restaurant and Motor Lodge Directories were distributed through Howard Johnson's installations, as well as through travel bureaus of major oil companies in the United States and Canada.

An intensive publicity program carried Howard Johnson's story to millions of readers. Major articles with pictures appeared in literally hundreds of newspapers and consumer publications across the country as well as in leading national magazines.

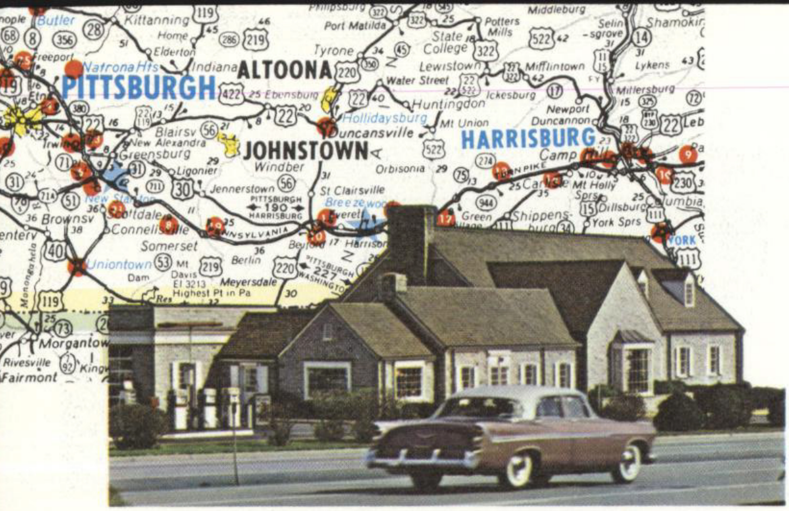
Stories and pictures in trade publications carried Howard Johnson's message. In at least five trade publications the Company was treated either as a cover picture or a lead feature article.

Our highway image was promoted through outdoor advertising consisting of painted bulletins and poster boards on selected locations. Billboards are one of Howard Johnson's most effective tools for reaching the public on the highway being primarily used as directional signs, designed as a service to the traveler.

A Company specialist was assigned early in 1962 exclusively to the responsibility of protecting Howard Johnson's established image along the highway, with special emphasis upon the widely recognized designs and color standards and keeping the outdoor advertising program under constant supervision.

Howard Johnson's children guests are treated as important individuals. They receive special children's menus designed to be taken home for use as baseball hats and others which can be punched out as model restaurants. In addition they receive distinctive Howard Johnson's comic books, balloons and lollypops.

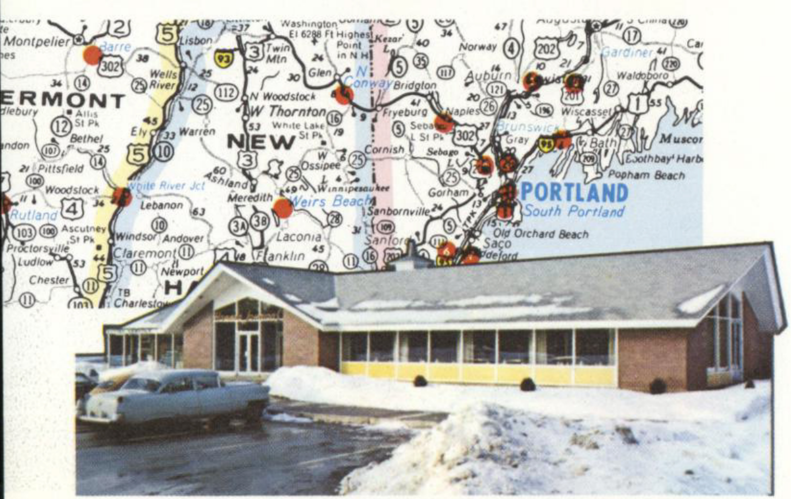
Travelers of all ages know that Howard Johnson's appreciates their patronage.


PITTSBURGH
ALTOONA
JOHNSTOWN
HARRISBURG
Butler
Kittanning
Tyrone
Huntingdon
Hollidaysburg
Blairsv
Greensburg
Ligonier
Somerset
Bedford
Carlisle
Uniontown
Morgantown
Fairmont
Breezewood
Everett
Shippensburg
Meyersdale
YORK
PENNSYLVANIA

Midway, Pennsylvania Turnpike

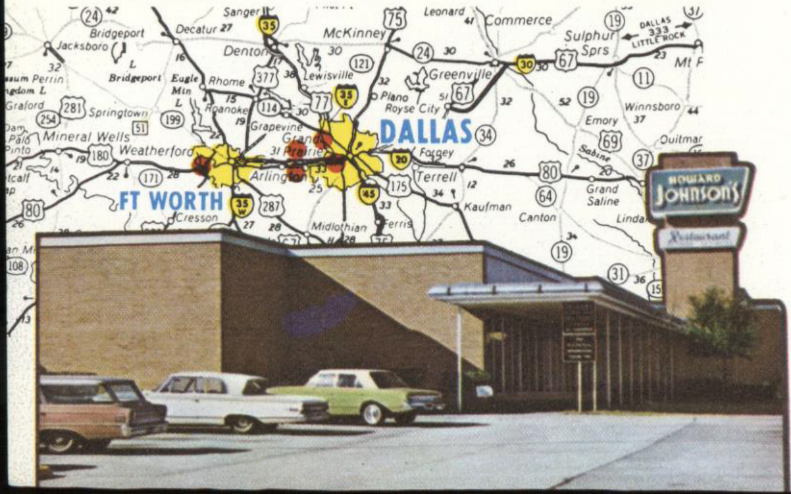
TOLEDO
CLEVELAND
LAKEWOOD
EUCLID
LORAIN
AKRON
CANTON
YOUNGSTOWN
Sandusky
Fremont
Elyria
Ravenna
Warren
Sharon
Mansfield
Massillon
Painesville
New Castle
Bucyrus
Galion
Ashland
Medina

Ohio Turnpike


VERMONT
NEW
PORTLAND
South Portland
Montpelier
Barre
Lisbon
Rutland
Lebanon
Laconia
Weirs Beach
Conway
Bridgton
Brunswick
Bath
Auburn
Gorham
Old Orchard Beach
Saco
Claremont
Woodstock

Maine Turnpike

Texas Turnpike


DALLAS
FT WORTH
Denton
McKinney
Commerce
Greenville
Sulphur Sprs
Weatherford
Arlington
Grand Prairie
Terrell
Kaufman
Mineral Wells
Cresson
Midlothian
HOWARD JOHNSON'S
Restaurant

A Special Report to Stockholders:

HOWARD JOHNSON'S

During the past year, more than 635,970,000 motorists traveled over 7.92 *billion* vehicle-miles on sections of eight major turnpikes and limited-access highways served by Howard Johnson's Restaurants.

These figures are an indication of the great importance of high-speed superhighways to the travel plans of the growing number of tourists and travelers in America. Studies reported by the Automobile Manufacturers Association show that travel by auto has increased 47 per cent over the last decade, rising from 491 billion vehicles miles in 1951 to more than 733 billion ten years later. While increase in highway travel has been dramatic, it has been neither sudden nor unexpected, but rather the result of a long-range trend.

Howard Johnson's was the leader in developing the potential of the superhighways for the public hospitality industry by opening the first turnpike restaurant on the Pennsylvania Turnpike in 1940, the same year that the pioneer toll-road was opened to the public. Since then, the scope of Howard Johnson's operations has grown with the popularity of this important east-west artery. In 1962 there were twenty-six Howard Johnson's Restaurants available to the estimated 84,200,000 motorists who traveled the Pennsylvania Turnpike.

Today, there are sixty-nine restaurants on eight segments of the toll-road system and another eleven located on limited-access highways in Massachusetts. In addition to the Pennsylvania Turnpike locations, Howard Johnson's operates eight restaurants on the Massachusetts Turnpike; five restaurants on the Maine Turnpike; fourteen on the New Jersey Turnpike; three on the Garden State Parkway in New

ON THE TURNPIKES

Jersey; as well as six restaurants on the Ohio Turnpike, one on the Texas Turnpike and five units on the Turner Turnpike and one on the Will Rogers Turnpike (an extension of the Turner Turnpike) in Oklahoma. Collectively, a grand total of 1,435 miles of high-speed roads are served by Howard Johnson's. In these cases the Company has either the exclusive right to operate restaurants, or, in fact, operates the only restaurants in each segment.

The original projections of Howard Johnson's, dating back over twenty years, regarding the importance of turnpike travel to the motorists in America are now borne out by the number of vehicle-miles traveled over these major highways. The greater distances traveled should mean vastly increased potential patronage for the roadside restaurants and motor lodges properly located to serve the toll-roads and turnpikes. Forecasts for the coming decade published by the Automobile Manufacturers Association indicate that national motor travel will probably grow to more than 1,058 billion vehicle-miles annually in 1972.

In addition to the resulting gains for Howard Johnson's Restaurant operations, the company foresees great opportunities for expansion of motor lodges through the establishment of new lodges at carefully selected sites convenient to turnpike accesses and cloverleafs.

In fact, research by the Motor Lodge Division indicates that if, by 1975, a motor lodge and restaurant existed near every segment of every cloverleaf intersection relating to the turnpike system, it appears that there would still not be enough such facilities to properly serve the expected volume of traffic.

HOWARD
JOHNSON'S
Restaurant
MASSACHUSETTS
BOSTON
WORCESTER
SPRINGFIELD
PITTSFIELD
HARTFORD
PROVIDENCE
FALL RIVER

Massachusetts Turnpike

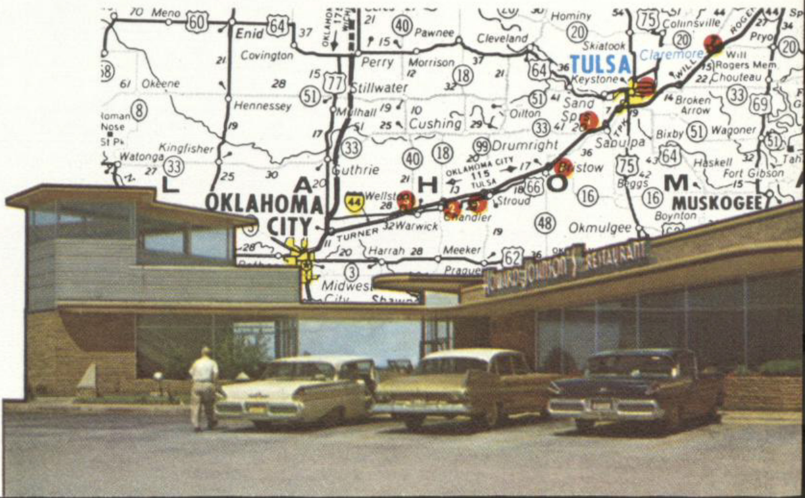
NEW YORK
PHILADELPHIA
Trenton
HOWARD JOHNSON'S

New Jersey Turnpike

JERSEY
ATLANTIC CITY
Ocean City
Seaside Hts

Garden State Parkway

Will Rogers Turnpike, Oklahoma


TULSA
OKLAHOMA CITY
MUSKOGEE
TURNER
HOWARD JOHNSON'S RESTAURANT

HOWARD JOHNSON COMPANY and subsidiaries

assets

	1962	1961
Current assets:		
Cash	$ 5,886,686	$11,181,515
United States Treasury bills, at cost (approximate market)	6,059,184	—
Accounts receivable:		
Trade, less allowance for doubtful balances	1,711,826	1,445,899
Other	262,839	102,700
Inventories of merchandise and materials, at average cost or market whichever lower	5,453,611	5,025,731
Prepaid expenses	332,195	575,331
Total current assets	$19,706,341	$18,331,176
Fixed assets, at cost (excluding fully-depreciated assets):		
Land and land improvements	$ 3,827,467	$ 3,188,918
Buildings owned	3,769,435	3,559,312
Buildings and improvements on leased property	7,901,986	6,341,853
Restaurant equipment	17,014,710	14,282,395
Plant, office and transportation equipment	6,156,463	5,366,676
	$38,670,061	$32,739,154
Less – Depreciation	17,570,695	15,080,819
	$21,099,366	$17,658,335
Other assets:		
Cash surrender value of life insurance policies	$ 138,747	$ 149,870
Miscellaneous	653,117	582,091
	$ 791,864	$ 731,961
	$41,597,571	$36,721,472

CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1962 AND 1961

liabilities and capital

	1962	1961
Current liabilities:		
Notes and purchase obligations – portion due within one year (Note B)	$ 656,822	$ 942,727
Accounts payable	3,489,247	3,125,855
Accrued expenses	2,000,264	1,833,956
Federal income taxes	3,112,119	2,838,944
Total current liabilities	$ 9,258,452	$ 8,741,482
Notes and purchase obligations–portion due after one year (Note B)	$ 1,834,421	$ 2,214,112
Deferred federal income taxes (Note D)	$ 110,000	–
Capital stock and retained earnings (Note C):		
Common stock, par value $1 per share: Authorized – 3,250,000 shares Issued – 1,073,697 shares in 1962, 800,000 shares in 1961	$ 1,073,697	$ 800,000
Common stock B, par value $1 per share: Authorized – 1,477,000 shares in 1962, 1,750,000 shares in 1961 Issued – 1,127,000 shares in 1962, 1,400,000 shares in 1961	1,127,000	1,400,000
Additional capital	24,465	–
Retained earnings	28,169,536	23,565,878
	$30,394,698	$25,765,878
Lease commitments (Note E)		
	$41,597,571	$36,721,472

consolidated statement of income and retained earnings

	1962	1961
Income:		
Net sales	$111,106,275	$100,541,522
Licensing and other income	2,290,476	1,702,852
Gain on disposal of fixed assets	79,741	137,245
Total income	$113,476,492	$102,381,619
Costs and expenses:		
Cost of sales and manufacturing, warehousing and transportation expenses, excluding depreciation	$ 51,458,645	$ 46,844,631
Selling, restaurant operating, administrative and general expenses, excluding depreciation	49,754,411	44,301,184
Depreciation of fixed assets	3,069,472	2,825,973
Interest	160,306	196,816
Total costs and expenses	$104,442,834	$ 94,168,604
Income before federal income taxes	$ 9,033,658	$ 8,213,015
Provision for federal income taxes (Note D)	4,430,000	4,120,000
Net Income	$ 4,603,658	$ 4,093,015
Retained earnings at beginning of year	23,565,878	19,472,863
Retained earnings at end of year	$ 28,169,536	$ 23,565,878

NOTES TO FINANCIAL STATEMENTS

NOTE A—Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Howard Johnson Company and all its subsidiaries, all of which are wholly owned.

NOTE B—Notes and Purchase Obligations

At December 31, 1962 the companies were obligated under notes and purchase obligations summarized as follows:

	PORTION DUE	
	Within one year	After one year
Real estate and chattel mortgages, interest at 3¾% to 6% per annum, maturing on various dates to 1979	$277,678	$1,166,974
Purchase obligations on restaurant and other equipment, maturing for the most part on various dates to 1965	107,631	44,220
Sinking fund notes, 2½%, payable in annual amounts to 1973	118,000	282,000
Other, maturing on various dates to 1974	153,513	341,227
Totals	$656,822	$1,834,421

The aggregate amounts which mature in each of the years 1963 to 1967, inclusive, for the indebtedness summarized above are $656,822, $448,793, $252,686, $184,313, and $154,391, respectively.

NOTE C—Capital Stock and Stock Options

The two classes of common stock of Howard Johnson Company are subject to certain rights and restrictions as to dividends, voting, conversion, etc. Dividend rights and restrictions provide that dividends other than in shares of the company's common stock or common stock B may be declared and paid on common stock without similar declarations and payments on the common stock B. If a dividend is declared and paid on common stock B, a dividend of the same kind and at no lesser rate per share must be declared and paid on the common stock.

All or part of the outstanding shares of common stock B may be converted into shares of common stock, on a share for share basis, by the affirmative vote of the holders of a majority of the outstanding shares of common stock B. In March 1962, 273,000 shares of common stock B were converted into an equal number of shares of common stock. Of the 2,176,303 authorized and unissued shares of common stock as at December 31, 1962, 1,127,000 shares were reserved for the conversion of the issued shares of common stock B and 124,303 shares were reserved for the stock options referred to in the following paragraphs.

At the beginning of 1962 there were outstanding options granted to executives and key employees to purchase 70,850 shares of the company's common stock at $36.10 per share. During 1962 options for 700 shares lapsed and options for 697 shares were exercised. No additional options were granted during the year. The $24,465 excess of the proceeds over the par value of the shares issued for options exercised during the year has been credited to additional capital.

At the end of 1962 there were oustanding unexercised options for 69,453 shares. Options were then exercisable for 27,363 shares. Of the remaining options for 42,090 shares, one-half become exercisable in May 1963 and one-half in May 1964. The options expire seven years from the date granted. Under the terms of the plan additional options for 54,850 shares may be granted at 95% of the fair market value of the common stock at the date of grant.

NOTE D—Investment Tax Credit

The investment tax credit provided for in the Revenue Act of 1962 results in a $221,000 reduction in federal income taxes currently payable by the companies. The companies have adopted a method of accounting whereby $111,000 of this credit is reflected in 1962 net income and $110,000 has been deferred in recognition of the estimated increase in taxes which, because of the reduction in allowable depreciation attributable to the credit, will be payable in future years. The provision for federal income taxes in the 1962 statement of income includes the deferred portion of the investment tax credit.

NOTE E—Lease Commitments

At December 31, 1962 several of the companies were directly obligated under long-term real estate leases, most of which expire in various years to 1980. The aggregate of the minimum annual rentals under these leases (exclusive of taxes, insurance and other expenses to be paid by the lessee) is approximately $3,200,000. The aggregate amount of all rentals charged to income in 1962 was approximately $8,820,000, including, in addition to rentals of the nature described above, real estate rentals based on a percentage of sales and rentals of real estate, trucks and equipment under short-term lease arrangements.

The companies were also contingently obligated under leases, most of which expire in various years to 1980, relating to properties occupied by interests other than the companies included in the consolidated financial statements. The aggregate of the minimum annual rentals under these leases is approximately $740,000.

OPINION OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Howard Johnson Company

In our opinion, the accompanying balance sheet and statement of income and retained earnings present fairly the consolidated financial position of Howard Johnson Company and subsidiaries at December 31, 1962 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

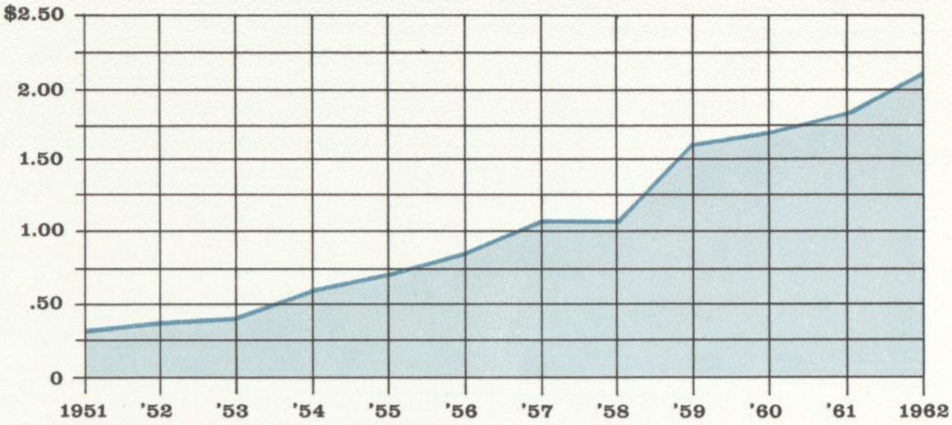
Boston, Massachusetts
February 25, 1963

PRICE WATERHOUSE & CO.

HOWARD JOHNSON COMPANY —12 years of

	1962	1961	1960
Income:			
Net sales	$111,106,275	$100,541,522	$95,006,944
Licensing and other income . .	2,290,476	1,702,852	1,504,900
Gain on disposal of fixed assets .	79,741	137,245	287,111
Total income	$113,476,492	$102,381,619	$96,798,955
Costs and expenses:			
Cost of sales and manufacturing, warehousing and transportation expenses, excluding depreciation	$ 51,458,645	$ 46,844,631	$44,526,255
Selling, restaurant operating, administrative and general expenses, excluding depreciation	49,754,411	44,301,184	42,021,766
Depreciation of fixed assets . .	3,069,472	2,825,973	2,622,722
Interest	160,306	196,816	223,219
Cash dividends paid on, and premiums on retirement of, preferred stock of a subsidiary	—	—	21,445
Total costs and expenses .	$104,442,834	$ 94,168,604	$89,415,407
Income before federal income taxes . .	$ 9,033,658	$ 8,213,015	$ 7,383,548
Provision for federal income taxes . . .	4,430,000	4,120,000	3,655,539
Net income	$ 4,603,658	$ 4,093,015	$ 3,728,009
Net income per share*	$2.09	$1.86	$1.69

*Net income per share based on 2,200,697 shares for 1962 and on 2,200,000 shares for prior years.



progress

net income per share 1951 through 1962

Year ended December 31

1959	1958	1957	1956	1955	1954	1953	1952	1951
$89,282,634	$79,661,952	$72,995,014	$66,217,949	$56,592,212	$47,828,194	$43,199,854	$39,383,199	$31,780,645
998,626	770,487	506,831	432,530	346,140	305,280	107,726	116,564	81,869
14,842	160,514	495,681	53,197	97,446	33,719	263,149	94,972	18,475
$90,296,102	$80,592,953	$73,997,526	$66,703,676	$57,035,798	$48,167,193	$43,570,729	$39,594,735	$31,880,989
$42,120,387	$38,827,022	$36,004,499	$33,134,264	$28,271,388	$23,916,119	$22,122,101	$20,585,415	$16,698,138
38,228,645	34,517,361	31,069,434	27,694,617	23,691,809	20,109,912	18,606,064	16,343,522	12,938,548
2,422,542	2,305,577	2,192,597	1,947,516	1,671,174	1,303,070	983,459	904,444	775,402
228,661	278,424	256,300	217,644	183,113	143,579	123,347	122,436	127,725
13,244	17,010	14,480	15,620	16,000	16,000	16,000	18,000	18,000
$83,013,479	$75,945,394	$69,537,310	$63,009,661	$53,833,484	$45,488,680	$41,850,971	$37,973,817	$30,557,813
$ 7,282,623	$ 4,647,559	$ 4,460,216	$ 3,694,015	$ 3,202,314	$ 2,678,513	$ 1,719,758	$ 1,620,918	$ 1,323,176
3,701,438	2,332,090	2,137,523	1,836,805	1,631,238	1,329,992	807,807	852,556	667,413
$ 3,581,185	$ 2,315,469	$ 2,322,693	$ 1,857,210	$ 1,571,076	$ 1,348,521	$ 911,951	$ 768,362	$ 655,763
$1.63	$1.05	$1.06	$.84	$.71	$.61	$.41	$.35	$.30

directors

Howard D. Johnson
Chairman of the Board

Charles M. Enders
Partner of F. S. Moseley & Co.
New York, New York

Walter M. Giblin
Partner of Glore, Forgan & Co.
New York, New York

Howard B. Johnson
President

William J. Martin
President of the
South Shore National Bank,
Quincy, Massachusetts

executive officers

Howard D. Johnson
Chairman of the Board,
Treasurer

Howard B. Johnson
President

Eugene J. Durgin
Vice President, Secretary
and General Counsel

John H. Wyllie
Vice President,
Assistant Treasurer

Pierre Franey
Vice President in Charge of
Food Research and Quality Control

Fredrich H. Thomforde
Vice President
in Charge of
a Restaurant Division

Merlin A. Perkins
Controller

Joseph V. Cronin
Assistant Secretary

executive management committee

Howard D. Johnson
Honorary Chairman

Howard B. Johnson
Chairman

And the following other executives of the Company or its subsidiaries:

Howard P. Cummings
Eugene J. Durgin
Pierre Franey
John E. Hipson
Robert D. Parks
George R. Pitman
Donald G. Shaftoe
Fredrich H. Thomforde
John H. Wyllie

counsel

Herrick, Smith, Donald, Farley & Ketchum
Boston, Massachusetts

auditors

Price Waterhouse & Co.
Boston, Massachusetts

transfer agents

Old Colony Trust Company
Boston, Massachusetts

The Chase Manhattan Bank
New York, New York

registrars

The First National Bank of Boston
Boston, Massachusetts

Manufacturers Hanover Trust Company
New York, New York

The annual meeting of stockholders will take place at 11:00 A.M. Monday, March 25, 1963 at the Howard Johnson Company offices, 89 Beale Street, Wollaston, Massachusetts.

Ice Cream

HOWARD JOHNSON COMPANY

89 BEALE STREET, WOLLASTON 70, MASSACHUSETTS

OTHER OFFICES:

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95-25 QUEENS BOULEVARD, REGO PARK, NEW YORK
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